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SUBJECT: PETROCARIBE UPDATE #20: TEXACO AND VENEZUELA
SUPPLY FUEL TO ST. VINCENT

REF: A. BRIDGETOWN 344
¶B. 05 BRIDGETOWN 2085

¶1. (SBU) Summary: The Government of St. Vincent and the Grenadines (GOSV) and Texaco have settled their dispute over the pricing of liquefied petroleum gas (LPG), with the GOSV agreeing to increase the government-regulated price of this cooking fuel used in nearly every home on the island. The Governments of Venezuela and St. Vincent, meanwhile, plan to establish a joint company in St. Vincent to sell LPG supplied through the PetroCaribe oil accord. St. Vincent will also receive diesel fuel from Venezuela for use in generating electricity but will not get the gasoline the GOSV had hoped for. These developments suggest that St. Vincent, and possibly other Eastern Caribbean countries, have lowered their expectations regarding the benefits they will receive from PetroCaribe, with Venezuela becoming just one of several suppliers of energy to the region. End summary.

St. Vincent Settles With Texaco

¶2. (U) The Government of St. Vincent has settled its dispute with Texaco over the pricing of LPG the company supplies to the island. The GOSV has agreed to increase the government-regulated retail price of LPG from US$11 for a 20-pound container of the home cooking fuel to US$13, which is lower than the US$15 price sought by Texaco. The GOSV also agreed to a new price structure for LPG that will provide a guaranteed profit margin to Texaco as the importer and wholesaler of the fuel, as well as to the various retail distributors. A Texaco official explained to Econoff that while the company did not get as high a price increase as it had hoped for, the new arrangement is satisfactory. In an odd twist, several days after the GOSV's March 31 announcement of the new price of LPG, Prime Minister Ralph Gonsalves told the press that he was out of the country at the time his Cabinet decided on the price rise and would have made Texaco settle for less.

Texaco Threatened to Cut Off Fuel

¶3. (U) The GOSV's failure to respond to earlier requests by Texaco to raise the price of LPG led the company to threaten a cut off of supplies to the island. While PM Gonsalves initially expressed indignation over this threat, he eventually took a more conciliatory tone toward Texaco,

indicating that he hoped to reach an agreement with the company (ref A). Texaco currently ships to St. Vincent all the LPG used in country with the exception of two limited shipments recently received from Venezuela. Once it arrives on the island, Texaco sells the LPG at a wholesale price to several local distributors that then sell the home cooking fuel to consumers. Texaco also sells LPG to consumers at its gas stations on the island. By keeping the government-regulated retail price artificially low, Texaco argued that it could not sell to consumers, nor charge local distributors a wholesale price, that covered its shipping costs.

Venezuelan Fuel Sent as a Stopgap Measure

¶4. (SBU) The two shipments of LPG sent to St. Vincent by Venezuela in December 2005 and January 2006 were stopgap measures intended to fill any fuel shortage caused by a potential cut-off by Texaco, according to a high-ranking GOSV official who advises PM Gonsalves on energy matters. The Venezuelan LPG was sent to St. Vincent at the last minute, which accounts for the inefficient manner in which it was shipped, in thousands of individual metal containers rather than more economical bulk shipments. The timing of the shipments, the first of which arrived just prior to St. Vincent's December 2005 general election, led to speculation that they were also intended to shore up the electoral prospects of the PM. Gonsalves is one of Venezuela President Hugo Chavez's most ardent supporters in the region.

Venezuela to Establish a Fuel Company in St. Vincent

¶5. (SBU) Future LPG imports should arrive from Venezuela in bulk shipments as part of a joint Vincentian/Venezuelan venture to establish a LPG distribution company in St. Vincent, the government advisor explained recently to Poloff. The parastatal company will distribute the LPG St. Vincent receives through the PetroCaribe oil accord's concessionary financing scheme. This arrangement could allow the new company to undersell existing distributors, although the GOSV has yet to determine a pricing scheme or a start date for the company.

St. Vincent Will Get Diesel Fuel But No Gasoline

¶6. (SBU) St. Vincent will also obtain from Venezuela diesel fuel that will be used by VINLEC, the government-owned electric company. PetroCaribe's concessionary financing will allow the GOSV to lower electricity prices that have risen during the past year as a result of increases in world oil prices. St. Vincent is unlikely to receive gasoline from Venezuela because of the difficulty involved in distribution. The GOSV had intended for a parastatal company to sell gasoline obtained through PetroCaribe, but this plan would have involved the expense of constructing several new gas stations on the small island (ref B).

Comment

¶7. (SBU) The GOSV's willingness to raise LPG prices and reach a settlement with Texaco indicates that despite Gonsalves's enthusiasm for PetroCaribe, the PM recognizes the need to keep the private sector supplying energy to St. Vincent. With the exception of the two small LPG shipments cited above, neither St. Vincent, nor any of the other Eastern Caribbean countries that signed on to the PetroCaribe

agreement with great fanfare back in June 2005, have received benefits from it. Instead, they have experienced a degree of frustration in attempting to implement a plan that does not appear to have been fully thought through. Rather than Venezuela gaining dominance over the energy sector in the Eastern Caribbean, developments in St. Vincent suggest that Venezuela may become just another competitor in the regional energy market.
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